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SUBJECT: NORTH KOREA ECONOMIC BRIEFING - APRIL 2009

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Domestic Economy

[1](#)1. (U) DPRK Reportedly Bans Wide Array of Goods from Markets: The Korea Institute for Far Eastern Studies (IFES) reported that "North Korea Intellectual Solidarity," a South Korean civic group consisting of 600 North Korean defectors, claimed that North Korean authorities released on March 15 a list of goods banned from markets across the country from April 1. The ban would in theory eliminate most items traditionally sold in these markets. Banned goods include foodstuffs, clothing, housewares, TVs, furniture, cigarettes, etc., and all goods produced in the United States, South Korea, manufactured by joint-venture firms (including goods produced in the Kaesong Industrial Complex), and relief goods including medicines sent by the United Nations.

[1](#)2. (U) DPRK Prepares for Spring Fertilizer Shortages: IFES reported on March 17 that North Korea is facing fertilizer shortages as the spring farming season approaches. According to IFES, DPRK authorities and farmers are concerned that prospects for receiving fertilizer from the ROKG are remote (until 2008 the ROKG delivered 300,000 mt of chemical fertilizer per year). IFES cited Dr. Kwon Tae-jin, Senior Research Fellow at Korea Rural Economics Institute as saying that North Korea has dramatically increased chemical fertilizer imports from China in order to prepare for the

possibility of a continued hold on ROKG fertilizer aid. The DPRK imported around 40 times more fertilizer from November 2008 through January 2009 (25,608mt) than it imported during the same three-month period a year earlier. Kwon opined that the reason for this sharp increase in chemical fertilizer imports is to stockpile supplies in the expectation that South Korea will not provide fertilizer.

¶3. (U) Popular Italian Restaurant in Pyongyang: Chosun Sinbo, a pro-DPRK newspaper based in Japan, reported on March 14 that an Italian restaurant serving spaghetti, pizza and pasta was opened in Pyongyang last December. The newspaper claimed that the restaurant is the first to serve exclusively Italian cuisine and is popular among Pyongyang's inhabitants. Kim Sang-soon, the restaurant manager, said that the opening of the restaurant was initiated by North Korean leader Kim Jong-il as a way for North Koreans to have the opportunity to taste world cuisines. He noted that Kim Jong-il had ordered a delegation of North Korean chefs to be dispatched to Italy to learn Italian cooking. All the materials for the Italian cuisine such as wheat flour, butter and cheese are being imported from Italy.

Inter-Korean Economic Cooperation

¶4. (U) DPRK Threatens ROK Civilian Aircraft in Its Airspace in Reaction to U.S.-ROK Military Exercise: North Korea's Committee for the Peaceful Reunification of the Fatherland announced March 5 in a statement that it would be unable to guarantee the safety of South Korean civilian flights using its airspace during the Key Resolve, a March 9-20 U.S.-ROK joint military exercise. The announcement was

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part of a broader DPRK hostile reaction to the exercise. Along with other international reaction, South Korea's Ministry of Unification (MOU) issued a statement on March 6 urging North Korea to retract the warning and stating, "The military threat against normal operation of civilian airplanes under international aviation protocols is in violation of international norms and is inhumane." KCASA, Korea's Civil Aviation Authority, on March 6 mandated that all Korean air carriers avoid the Kamchatka area. Planes were forced to detour to the North Pacific Air Route from the Kamchatka Air Route (which passes through DPRK airspace), forcing aircraft to burn more fuel.

¶5. (U) Following the completion of the military exercise, the ROKG sent two test flights along the Kamchatka route; when they proceeded without incident, the ROKG announced on April 24 that ROK aircrafts could immediately resume overflying DPRK airspace.

¶6. (U) North Korea loses an average of USD 870 in overflight fees per flight that does not use its airspace. According to the Ministry of Land, Transportation, and Maritime Affairs, South Korea since 2002 has paid an annual average of USD 2.5 million (more in recent years) to North Korea for use of its airspace. (See below).

¶7. (U) South Korean Overflights of DPRK Airspace

	2002	2003	2004	2005	2006	2007	2008	TOTAL
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No of Flights	1,724	1,793	2,356	3,350	4,183	4,324	5,260	22,990
Payment (USD Million)	0.96	1.10	1.43	2.30	2.95	3.39	5.30	17.4

Source: Ministry of Land, Transportation and Maritime Affairs

Foreign Aid

¶8. (U) ROK NGOs Resume Sending Aid Once DPRK Re-Opens Border: The Coal Briquettes Sharing Movement and Korean Peninsula Agro-Fishery Cooperative Committee, Seoul-based civic groups, delivered 50,000

coal briquettes and 25 tons of livestock feed, respectively, to North Korea on March 24 when the inter-Korean border was reopened following the closures by the DPRK to express dissatisfaction with U.S.-ROK military exercises. The groups had originally planned to deliver the aid earlier but the shipments were delayed by the border closures. Representatives of the Korea Sharing Movement visited North Korea on March 21 to discuss public health issues and agricultural development.

¶9. (U) ROK Buddhist Group to Build a Kimchi Factory in Pyongyang or Kaesong: The One Korea Buddhist Movement, a Seoul-based religious group, said March 15 that it plans to build a kimchi factory in North Korea in response to a request by the DPRK's National Reconciliation Committee. The factory is to have a daily capacity 10 tons of kimchi and is to be located in either Pyongyang or Kaesong. The factory will employ 90 North Koreans. The plan also calls for planting of additional cabbage in North Korea. No specific construction schedule has been determined.

¶10. (U) Malaria Reduced by 50 Percent in 2008 in Kaesong Area: Newsis, a Seoul-based online news provider, reported March 28 on a successful effort by the ROK's Gyeonggi Province to help North Korea prevent malaria in the area surrounding Kaesong. The Provincial government reports that 1,007 North Koreans living in the vicinity of Kaesong were infected by malaria in 2007, but only 485 people were infected in 2008, a 52 percent drop. Gyeonggi says the preventive measures it helped introduce deserve much of the credit.

¶11. (U) DPRK Refuses Further U.S. Food Aid: Local media reported on March 17 that State Department Spokesman Robert Wood announced that North Korea informed the U.S. government that it was terminating the U.S. food assistance program. The United States delivered USD 190.9 million in assistance or 169,900 tons of food aid (122,000 metric tons of corn, 3,470 mt of corn-soy blend, 37,270 mt of soybeans, and 1,470 mt of vegetable oil). Local press noted that the DPRK had been tough on the use of Korean-speaking monitors by the World Food

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Program (WFP). Wood said the U.S. government is ready to deliver the remainder of the promised food aid (the U.S. government has pledged to provide up to 500,000 mt of food to help alleviate the North's chronic food shortages). South Korea's Unification Minister Hyun In-taek said North Korea was making a carefully calculated decision. Minister Hyun also said, "We have been watching closely how North Korea would feel about receiving the food aid from the United States while the joint US-ROK military drill is underway." Hyun reaffirmed that the ROKG will provide aid when North Korea accepts calls for dialogue and if the food situation worsens.

¶12. (U) U.S. NGO to Work with American Heart Association to Improve DPRK Heart Disease Care: Voice of America reported March 19 that U.S.-based Global Resource Services (GRS) plans to expand aid projects for North Korea. Robert Springs, CEO and President of GRS, said at a American Association for the Advancement of Science seminar on March 18 that GRS plans to facilitate comprehensive medical care for heart disease across North Korea in cooperation with DPRK authorities and the American Heart Association. Springs added that the organization also plans to help feed 150,000 people in Hwanghae and North Hamkyong provinces. GRS has been working with the DPRK Ministry of Agriculture since 2004 to carry out soy farm projects including tofu production, soybean oil and soy milk to feed North Koreans. GRS also offers an educational program for North Korean professors at Pyongyang University of Foreign Studies to help in improving their English teaching skills.

¶13. (U) UNICEF's DPRK Projects Face Financial Difficulty: The UNICEF Pyongyang Office Representative, Gopalan Balagopal was reported by Radio Free Asia on March 17 to have said that UNICEF is facing financial difficulties in its humanitarian aid projects in North Korea. Balagopal said that UNICEF allocated USD 13 million to help North Korea this year, USD 2 million lower than a year earlier. The budget is intended to improve education, the public health sector, and water and sewage facilities. However, due to the global economic recession, the international community's contribution was

drastically reduced and totaled just USD 236,000 (two percent of the planned budget). UNICEF may have to cancel the North Korean project or reduce it unless the contributions increase.

¶14. (U) EU and RSF Provide Funding for ROK Online DPRK News: The European Union and Reporters without Borders (RSF) said March 24 that they plan to provide over the next three years financial support of 400 million won (USD 273,597) for Open DPRK Communications, Free Chosun Radio, and Free North Korea Radio, three South Korean online and broadcasting news services focused on North Korea. RSF and the three news providers held a signing ceremony on the financial assistance in Seoul on that day. The news providers also urged the South Korean government to allocate an exclusive radio frequency so that their news programs can also be available in South Korea. The news providers are currently broadcasting news programs through a higher-cost transmission center overseas. The ROKG is reportedly concerned about exacerbating inter-Korean ties if it allows the broadcasters to use a local frequency.

Foreign Trade and Investment

¶15. (U) DPRK-Japan Trade in 2008 Hits New Low: The Korea Trade-Investment Promotion Agency reported March 11 that bilateral trade between North Korea and Japan in 2008 declined 11 percent to USD 8 million, the lowest level since 1977 (when Japan began releasing bilateral trade figures). The drop in trade was mainly due to a ban on the entry of DPRK-flagged ships into Japan and the continuing ban on imports from North Korea. Japan's exports to North Korea in 2008 consisted primarily of chemicals, machinery, plastics and transport equipment.

DPRK-Japan Trade: 2003-2008

(Unit: USD Million)

YEAR	DPRK Exports to Japan	DPRK Imports from Japan	TOTAL
2003	173	91	264
2004	163	89	252
2005	132	63	195

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2006	77	43	120
2007	0	9	9
2008	0	8	8

Sources: East Asia Trade Research Board and Korea Trade and Investment Promotion Agency

¶16. (U) DPRK Imports of Beef and Wheat Flour from China Grow: The North Korean Economy Watch, a U.S.-based blog on North Korean news, reported March 7 that North Korea has imported 5 tons of beef, worth USD 77,174 from China via the Northern port of Dalian and that China has also agreed to ship 60,000 metric tons of wheat flour. North Korea's imports of Chinese beef, in 485 containers via the border city of Dandong in February this year, was the first of its kind from Dalian, the report said, adding that Dalian is China's second biggest beef-exporting port after Hong Kong. The flour will be supplied under an international aid agreement in the period June-August and is being supplied by Jinyuan Flour, a company based in Zhengzhou, Henan Province of China.

¶17. (U) DPRK Offers Potential EU Investors Tax Breaks: Radio Free Asia reported March 10 that North Korean diplomats to Switzerland were invited to give a presentation on investment and trade for more than 40 European companies on March 4. The seminar was organized by The Hague Chamber of Commerce and GPI Consultancy in Netherlands. The DPRK officials offered them various tax benefits such as no import tariffs, and no sales and income taxes for investors in North Korea. North Korea is eager to lure investors to build high-rise buildings such as hotels, shopping malls and tourism facilities in downtown Pyongyang. A delegation of EU companies plans to visit North Korea in May to discuss further business relations.

¶18. (U) Swiss Bank Guarantees Payment for DPRK Investor Orascom: Radio Free Asia reported March 25 that the Egyptian firm, Orascom, which has invested in the telecommunications and construction sectors in North Korea, was recently given a payment guarantee by UBS, a Swiss commercial bank. The bank's payment guarantee enabled Orascom to invest USD 50 million, despite North Korea's poor business environment. Orascom has a staff of 30 to conduct its business in North Korea.

¶19. (U) DPRK-Mongolia Sign Hydro-Meteorology Cooperation: Korea Central News Agency recently reported that North Korea and Mongolia signed a memorandum of understanding on hydro-meteorology cooperation in Pyongyang. The two countries also agreed to cooperate in science and technology.

STANTON